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Foreign Exchange Control Board

BULLETIN No. 1

FOREIGN EXCHANGE CONTROL

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FOREIGN EXCHANGE CONTROL

1. REASONS FOR FOREIGN EXCHANGE CONTROL

The outbreak of war in September 1939 brought Canada face to face with new and urgent problems in her financial relationships with other countries. In particular, it was evident that the utmost prosecution of the war would involve tremendous purchases, principally in the United States, of aeroplanes and other equipment for our Armed Forces and of machinery and materials essential for the establishment and operation of our war industries. Those purchases could be paid for only with United States dollars and, in addition, United States dollars had to be found to enable this country to continue buying commodities essential for carrying on the civilian life of Canada and to continue meeting, as they fell due, Canada's contractual obligations payable in United States currency.

The United States dollars which Canada needs to finance her purchases and pay her obligations in the United States are obtained mainly from two sources: (1) from selling goods and gold to the United States, and (2) from the services which Canadians perform for residents of the United States, principally those rendered to American tourists. Apart from liquidating Canada's reserves of foreign capital assets, United States dollars cannot be obtained in any other way. They cannot be bought with Canadian dollars since the people of the United States cannot use Canadian dollars in their own country and will buy them only to the extent that they may use them for payments and expenses in Canada.

It was to meet these problems that foreign exchange control was established in Canada on September 16, 1939, by Order in Council under the War Measures Act, as an important and fundamental part of Canada's war effort.

2. PURPOSES OF FOREIGN EXCHANGE CONTROL

The main purpose of foreign exchange control is to balance as far as possible Canada's income and outgo of United States dollars in order to ensure that United States dollars will be available as required to obtain vital war and other imports and at the same time to meet contractual obligations payable in United States dollars.

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In addition, foreign exchange control is designed :

(a) To ensure that Canada's foreign assets, which if current receipts were not sufficient might later be urgently needed for war purposes, will not be dissipated by uncontrolled withdrawals of capital from Canada both by residents and non-residents who, under the shock of wartime conditions, might wish to liquidate their Canadian investments and convert the proceeds into United States dollars.

(b) To prevent disorganization of Canada's domestic securities markets which, if it occurred, would seriously interfere with the Government's program of war financing.

(c) To stabilize the rates of exchange between the Canadian dollar and the currencies in which the large proportion of Canada's international transactions are conducted and so remove one of the unnecessary hazards of business and finance in time of war when, in the absence of control, unusual demands for foreign exchange and the operations of speculators might seriously affect the international value of the Canadian dollar.

(d) To cooperate with the Exchange Controls in other British and Allied countries and, in particular, to facilitate the financial assistance which Canada is providing to the United Kingdom.

3. ADMINISTRATION OF FOREIGN EXCHANGE CONTROL

The Foreign Exchange Control Order places the administration of foreign exchange control in the hands of a Board of six members, namely :

Chairman—G. F. Towers, Governor, Bank of Canada.
W. C. Clark, Deputy Minister of Finance.
H. Fortier, Chief Inspector, Post Office Department.
N. A. Robertson, Acting Under-Secretary of State for External Affairs.
H. D. Scully, Commissioner of Customs.
L. D. Wilgress, Deputy Minister of Trade and Commerce.

The Chairman (Alternate) of the Board is D. Gordon, Deputy Governor of the Bank of Canada. The Secretary is R. H. Tarr.

The Bank of Canada is the technical advisor to the Board and acts as agent and banker for the Board.

The Board's main offices are in Ottawa but a general office has also been established at Vancouver. Offices with certain limited functions are situated in Montreal and Toronto and an office is located in Windsor to deal with the various problems arising there which are peculiar to a border community.

The Order appoints all branches in Canada of Canadian chartered banks as Authorized Dealers and agents of the Board to buy and sell foreign exchange for the Board's account and also appoints postmasters as agents of the Board with limited authority to sell foreign exchange. Postmasters and Collectors of Customs and Excise are agents of the Board for the purpose of issuing export and import licenses. The Board, under its authority contained in the Order, has appointed the Montreal City and District Savings Bank, La Caisse d'Economie de Notre Dame de Quebec, Province of Ontario Savings Office, Province of Alberta Treasury Branches, Canadian Pacific Express Company, Canadian National Railways Express Department, American Express Company and Thos. Cook & Son Limited, as agents with limited authority to purchase and sell foreign exchange on the Board's behalf.

4. FOREIGN EXCHANGE CONTROL ORDER

Foreign exchange control in Canada is governed by the provisions of the Foreign Exchange Control Order which, in effect, mobilized the whole of the foreign resources of Canada and brought them together, actually or potentially, into a common pool to be drawn on as the national interest might demand. At the same time all financial transactions between residents of Canada and residents of other countries were placed under the supervision of the Foreign Exchange Control Board.

The main provisions of the Foreign Exchange Control Order are as follows :

(a) All foreign exchange received by residents of Canada must be sold to an Authorized Dealer or other agent of the Board. In addition, on April 30, 1940, the Foreign Exchange Acquisition Order was passed requiring all residents of Canada to sell to the Board all foreign exchange in their possession, ownership or control on that date.

NOTE—"Foreign exchange" includes any currency other than Canadian currency, any matured bond coupon, postal note, money order, cheque, draft, traveller's cheque, bill of exchange, or other similar instrument payable in any currency other than Canadian currency, and any currency other than Canadian currency to which a person may be entitled by reason of a deposit, credit or balance with a bank, stockbroker or investment dealer or other similar depositary.

(b) All foreign exchange required by residents of Canada must be purchased from an Authorized Dealer or other agent of the Board.

(c) Transfers of Canadian dollars by residents of Canada to non-residents may be made only under permit issued by or on behalf of the Board.

(d) Exports from and imports into Canada of goods and securities may be made only under licence issued by or on behalf of the Board.

(e) Sales of securities in Canada by or on behalf of non-residents are subject to permit from the Board.

(f) Exports of capital from Canada by either residents or non-residents are generally prohibited except payments, as and when they fall due, of legitimate debts of Canadian residents.

The Board has authority under the Order to pass Regulations and issue instructions establishing rules and procedures necessary for carrying out the provisions of the Order. It also has authority to exempt transactions from the provisions of the Order and a number of normal small transactions have been exempted by Regulation from licence and permit requirements.

5. RATES OF EXCHANGE

The Order authorizes the Board to establish rates of exchange at which all foreign exchange transactions by residents of Canada are to be made. The Board deals directly only in United States dollars and pounds sterling and the rates for those currencies established on September 15, 1939, and maintained since that time up to date are as follows :

United States dollars	— buying rate - - - -	10% premium
	— selling rate - - - -	11% premium
Pounds sterling	— buying rate - - - -	4.43
	— selling rate - - - -	4.47

Purchases and sales of other foreign currencies by residents of Canada must also be made through Authorized Dealers on the basis of the prevailing rates in New York and London.

The rates established by the Board for United States dollars and sterling are called "official rates". They are the rates at which all foreign exchange transactions by residents of Canada must be made. The rate for the Canadian dollar which prevails in the United States is called the "free market" or "open market" rate. That rate fluctuates from day to day and frequently shows a greater discount for the Canadian dollar than that represented by the official rate. The free market rate does not, however, bear any real relation to the official rate. Residents of Canada cannot legally buy or sell Canadian dollars in the United States and accordingly the free market rate merely represents the price which one resident of the United States is willing to pay to another resident of the United States for Canadian dollars which the latter owns and wishes to sell. The great proportion of transactions involving the purchase or sale of Canadian dollars for other currencies takes place in Canada at the official rates. If a resident of Canada does illegally buy Canadian dollars in the United States with American dollars, he is doing so from a non-resident and Canada is deprived of United States dollars which are urgently needed for war and other essential expenditures.

6. RESIDENTS AND NON-RESIDENTS

While residents of Canada are subject to foreign exchange control in respect of all types of financial transactions, non-residents are, as a general rule, subject to control only with respect to transactions with residents, in which case the governing consideration is usually the circumstances under which residents are permitted to enter into such transactions.

For the purposes of this bulletin the expression "non-resident" means a resident of the United States or of other countries in North and South America, excluding Canada and Newfoundland. To a certain extent the same rules apply to all non-residents. There are, however, certain variations with respect to transactions by and with non-residents who are residents of countries in the sterling area. These variations are referred to in Section 11 below. In addition, special rules are applicable to transactions by and with residents of countries which are occupied by or contiguous to the enemy. All such transactions are dealt with by the Board on an individual basis and the rules outlined in this bulletin are not necessarily applicable to them.

The expression "resident" means any person whose ordinary residence is in Canada (and, for most purposes, Newfoundland) and it specifically does not include persons who come to Canada as tourists or temporary visitors. A person who was ordinarily resident in Canada on September 15, 1939, or at any subsequent time continues, however, to be regarded as a resident for foreign exchange control purposes unless the Board makes a ruling to the contrary.

Under the terms of an agreement entered into between the governments of Canada and the United States in June, 1940, residents of Canada who are citizens of the United States and are not British subjects may, on application to the Board, obtain exemption from foreign exchange control regulations for foreign exchange and foreign securities which they owned at the time foreign exchange control was established or which they have since acquired from non-Canadian sources.

7. RECEIPTS OF FOREIGN EXCHANGE BY RESIDENTS

As mentioned above, every resident of Canada who receives any foreign exchange is required, under the Order, to sell it immediately to a bank in Canada and he is not entitled to dispose of it in any other manner. This includes interest, dividends, payments from estates, payments for exports and for services rendered to non-residents. If a resident is entitled to receive foreign exchange from these or other sources, it is an offence for him to accept payment in Canadian dollars or in any kind of foreign exchange other than that which is payable to him.

The Order also specifies the kinds of foreign exchange which must be obtained by residents as a result of certain transactions. These provisions relate particularly to exports from Canada and services performed by residents for non-residents.

(a) *Exports of Goods.* It is a fundamental principle of exchange control that all exports from Canada should be sold for payment in foreign exchange. Exports are Canada's largest source of foreign exchange and in order that the Board may know when and from whom foreign exchange arising from exports will be available, all exports are licensed. Exports to the United States and all countries outside the sterling area (which comprises the British Empire, excluding Hong Kong, Canada and Newfoundland, and includes certain other countries) must produce United States dollars or currencies which may be freely converted into United States dollars and made available to the Board. Exports to sterling area countries may be paid for in any foreign currency or in Canadian Dollars since the operation of similar exchange controls in those countries ensures that Canadian dollars used to pay for exports from Canada are derived through properly authorized channels. (Bulletin No. 2, issued by the Board, deals in detail with the provisions of the Order and Regulations relating to exports of goods).

(b) *Services.* The Order provides that residents of Canada performing services for non-residents shall obtain payment for such services in United States dollars or currencies readily convertible into United States dollars. This does not necessarily apply, however, to services performed for residents of the sterling area nor to services performed in Canada for tourists or temporary visitors.

8. PAYMENTS BY RESIDENTS TO NON-RESIDENTS

A resident of Canada must obtain a permit before making any payment to a non-resident whether the payment is to be made in Canadian dollars or in a foreign currency. In particular, any foreign currency required by a resident for payment to a non-resident must be obtained from an Authorized Dealer or other agent of the Board. Payments to non-residents are generally approved for any current purposes but not for any purpose which would result in an export of capital from Canada except in the case of repayments of legitimate debts to non-residents.

The general policies followed by the Board in dealing with applications by residents to make particular types of payments to non-residents are dealt with briefly below :

(a) *Imports of Goods.* Payments for imports of goods cause the principal drain upon Canada's foreign exchange resources, and in providing foreign exchange for that purpose, it is necessary for the Board to know that the goods have entered or will enter Canada within a reasonable time. In order that evidence of importation of the goods will be available when the importer applies for foreign exchange to pay for them, he is required to obtain an import licence at the time the goods enter the country. It is important also that the proper kind of foreign exchange be used to pay for imports. When goods are imported from any country in the sterling area, whether directly or indirectly, the only foreign currency which may be used to pay for the goods is sterling in order that Canada's available United States dollars may be conserved to pay for goods that can be obtained only in the United States or other non-sterling area countries. Payment may alternatively be made in Canadian dollars for imports into Canada. (Bulletin No. 3 describes in more detail the procedure with respect to imports of goods and payment for them.)

(b) *Services.* Permission is given for payments in foreign exchange or Canadian dollars for normal services rendered to residents of Canada by non-residents. As in the case of payment for imports, services rendered by residents of the sterling area may be paid for only in sterling or Canadian dollars.

(c) *Current Income of Non-Residents.* Permission is granted for the payment of current income of all kinds (*e.g.* rents, interest, wages, etc.) accruing in Canada to a non-resident. Where such income is payable in Canadian dollars, the resident making the payment or the non-resident himself may obtain foreign exchange from an Authorized Dealer for the equivalent of the Canadian dollar amount payable. Foreign exchange is furnished for payment of interest on securities and other obligations payable in foreign exchange and similarly for dividends, provided they are being paid from current earnings of the Canadian company. If dividends paid from current earnings or interest are payable in Canadian dollars, the non-resident recipient may obtain from any Authorized Dealer foreign exchange for the equivalent of such payments at the Board's official rates.

Where a non-resident has expenses in Canada which are directly related to his Canadian income, he is expected to pay those expenses from his Canadian income and foreign exchange is provided only for his net income after meeting those expenses.

(d) *Gifts, Benevolent Remittances, etc.* Bona fide benevolent remittances such as charitable donations, gifts, family maintenance, religious and missionary expenditures and remittances by non-profit organizations are permitted within moderate limits. In the case of remittances for the support of non-residents, evidence of the need of the non-resident is required.

(e) *Debts.* Residents of Canada are permitted to fulfil their legal obligations to non-residents as and when they fall due if such obligations were incurred prior to September 16, 1939, or with the approval of the Board after that date, but they are not ordinarily permitted to retire debts in advance of the due date. Where debts are contractually payable in a foreign currency, that foreign currency is provided for repayment, and where the debt is payable in Canadian currency, permission to pay Canadian currency only to the non-resident is granted.

A resident is not permitted to incur a capital obligation to a non-resident either in Canadian dollars or foreign exchange without obtaining the prior approval of the Board.

(f) *Other Capital Payments.* In general, capital payments to non-residents, other than in satisfaction of legitimate debts, are not permitted either in Canadian dollars or in foreign exchange; for example, a resident is not permitted to make a payment to a non-resident for the purchase of securities. In the particular case of sales of real estate owned in Canada by non-residents prior to the inception of exchange control and any distributions of the capital of estates and trusts, payments to the non-resident vendor or beneficiary of other than nominal amounts are permitted only where the non-resident is investing the proceeds in Canadian domestic securities.

9. SECURITIES TRANSACTIONS

As an administrative measure to ensure that movements of securities occur only in connection with permitted transactions, licences from the Board are required for all exports of securities from Canada and imports of securities into Canada. The fundamental principles of exchange control in so far as they relate to transactions in securities are that no exports of capital from Canada shall result from such transactions. Residents disposing of foreign securities to non-residents must obtain payment of the full value in foreign exchange which they must either reinvest immediately in other similar foreign securities or sell to an Authorized Dealer. Residents are likewise not permitted to use Canada's foreign exchange resources to purchase foreign securities from non-residents. On the other hand, non-residents are not permitted to reduce the total amount of their investment in Canada at the inception of exchange control by selling securities in Canada. They may, however, switch from one Canadian security to another so long as their total Canadian investment is not reduced.

Transactions in either Canadian or foreign securities between residents of Canada or between non-residents are not affected by foreign exchange control.

(The general principles of foreign exchange control relating to securities transactions and the types of transactions which may be entered into by both residents and non-residents are dealt with in more detail in the Board's Bulletin No. 5.)

10. TRAVEL

Under the Order, no resident of Canada may leave Canada unless he has obtained a permit from the Board or unless he is exempted under the Board's Regulations. The principal exemption is that no permit is required for travel direct to a country in the sterling area.

In July 1940 the Minister of Finance announced the Government's decision that United States funds could no longer be provided for pleasure travel due to the necessity of diverting the United States funds formerly expended by Canadians for that purpose to the purchase of war supplies and other essential commodities. Accordingly permits for pleasure travel to the United States and other countries outside the sterling area which involve, either directly or indirectly, expenditures by residents of Canada in those countries are not granted. Travel permits are granted and the necessary United States funds provided for necessary business travel, travel for adequate health reasons, for certain educational purposes, for in transit travel through the United States between two points in Canada where that is the quickest or most direct route and in certain other special cases.

In addition to the ordinary travel permit which may be obtained in proper cases by application to a bank or express company, the Board has established certain special permits for use in border areas and in other special circumstances. (The Board's Bulletin No. 4 deals fully with the requirements for travel permits and describes the types of permits available and the circumstances under which they may be obtained.)

No American tourists or visitors to Canada needs any passport or permit to enter or leave Canada as often as he pleases. The travel permit requirements apply only to persons whose ordinary residence is in Canada.

Canada's tourist trade is one of the most important sources of United States dollars and friendly American tourists are more welcome than ever. Every person in Canada who is engaged in any business serving tourists is required by law to pay the full official premium when accepting United States dollars from tourists and every American dollar brought to Canada by tourists is immediately sent back to the United States to pay for the aeroplanes and other equipment which are needed by our Armed Forces and to pay for imports of essential commodities which are required for the continued functioning of a large part of Canadian industry.

11. TRANSACTIONS BY RESIDENTS OF CANADA WITH RESIDENTS OF THE STERLING AREA

The position of the United Kingdom and other British Empire countries in relation to Canada for foreign exchange control purposes is similar to Canada's position in relation to the United States in that the United Kingdom is making large purchases in Canada of essential war supplies. Canada is to the utmost of its ability making available to the United Kingdom the Canadian dollars necessary to finance those purchases. Accordingly, while permits are necessary in connection with transactions between residents of Canada and residents of the sterling area in the same manner as for transactions with other non-residents, the circumstances in which they are granted differ in some respects. Permission is readily obtainable by a resident of Canada for the purpose of making any payment either in sterling or Canadian dollars in any amount and for any purpose to a resident of the sterling area. In general, the Board will grant the necessary permission to residents of Canada to purchase securities in the United Kingdom and residents of the United Kingdom may readily obtain permits from the Board to sell securities in Canada. All of these transactions are methods by which Canada may assist the United Kingdom in the present war.

12. FURTHER INFORMATION

The purpose of this Bulletin is to indicate in general terms the purpose and effect of foreign exchange control in Canada at the present time. Details of the appropriate procedures have been omitted. Canadian banks and other financial institutions are, however, fully conversant with the Board's requirements and any person who may be contemplating entering into transactions affected by foreign exchange control may obtain from them information as to any changes in the policy administered by the Board since the date of this Bulletin or any other detailed information they may desire. Such information may also be obtained at any time by writing direct to the Foreign Exchange Control Board at either Ottawa or Vancouver.

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Foreign Exchange Control Board

BULLETIN No. 2

EXPORTS OF GOODS

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EXPORTS OF GOODS

1. GENERAL PRINCIPLES

The main purpose of foreign exchange control is to balance as far as possible Canada's income and outgo of United States dollars in order to ensure that United States dollars will be available as required to obtain vital war and other imports and at the same time to meet contractual obligations payable in United States currency. Exports are Canada's largest source of United States dollars and it is a fundamental principle of exchange control that all exports from Canada to the United States and to all other countries outside the sterling area should produce United States dollars or foreign currencies which may be freely converted into United States dollars and that such United States dollars be made available to the Foreign Exchange Control Board. Payment for exports to countries in the sterling area may be obtained in any foreign currency or in Canadian dollars since the operation of similar Exchange Controls in those countries ensures that Canadian dollars used to pay for exports from Canada have been derived through properly authorized channels.

In order that the Board may ensure that Canada's exports do make available the proper kind and amount of foreign exchange, it is necessary for it to know what exports are being made and when and by whom payment for such exports has been or will be received. For this purpose a "licence" is required for every export of goods from Canada. This licence has been consolidated with the export entry form required by the Canadian Customs for the export of goods and is issued by the Collector of Customs and Excise on behalf of the Board at the time the relative Customs export entry is filed with him, although in some cases the approval of an Authorized Dealer (that is, the bank in Canada with which the exporter ordinarily does business) or of the Board is required before the Collector can issue the licence.

The Board does not exercise any control over the kinds of goods which may be exported and its licence serves merely as a declaration that goods have been legally exported from Canada, of the kind and amount of payment which has been or is to be received and of the time when such payment has been or will be received. The Board's licence does not authorize any export which is prohibited or for which a licence or permit is required under any other law.

2. APPLICATION FOR LICENCE TO EXPORT GOODS—FORM B

A licence on the Board's Form B is required for every export of goods from Canada for which the Customs authorities ordinarily require a Customs export entry but is not required in any other case.

In particular it should be noted that no Customs export entry and therefore, no licence on Form B is ordinarily required for the export of :

(a) Travellers' baggage, including a non-resident tourist's automobile, travelling, camping and sporting equipment and bona fide tourist purchases taken out of Canada by and with a non-resident tourist.

(b) Goods of a value not exceeding $5 per shipment exported by mail, express or freight.

(c) Gifts to members of the Armed Forces of the British Empire or its Allies, irrespective of value.

Customs export entry form B. 13 and the Board's Form B are combined in one form and one set of at least five copies of this combined form for each carload or lesser shipment to a single consignee must be completed by the owner of the goods or by his agent and delivered to the carrier accepting the shipment for export. The carrier will hand the complete set to the Collector of Customs and Excise at the frontier port of exit prior to the exportation of the goods, *i.e.* at the last port in Canada through which the goods pass outwards for places outside Canada when exported by land and at the port where laden on the exporting ship when exported by water. When stamped and signed by a Collector of Customs and Excise in the circumstances outlined in Section 3 below, the Form B constitutes a licence from the Board for the export of the goods from Canada.

In completing Form B, the owner of the goods or his agent must, in addition to other particulars, insert in the appropriate spaces the kind of payment which has been or will be received and the name and address of his Authorized Dealer. The Collector of Customs and Excise returns one copy to the exporter, sends one copy to the Authorized Dealer named and one copy to the Board in order that they may ensure that any foreign exchange to be made available as a result of the export has been or is later received and sold to the Authorized Dealer.

When it is impossible for an exporter of goods by rail or water transportation to complete all the particulars required on Form B before the goods are ready for export, the Collector of Customs and Excise may permit the goods to leave Canada upon having submitted to him two copies of Form B for each carload or lesser shipment as a temporary export entry. The terms of settlement need not be shown on these forms. This temporary entry must be replaced by one complete set of Form B for each shipment to a single consignee within six days of the date of the temporary export entry.

Unless specially authorized by the Board, a licence on Form B does not authorize a shipment on consignment but the Board does not classify as a shipment on consignment goods exported for certain sale not later than one month after their arrival at their destination where the only undetermined factor is the price at which the sale will be made, provided that each such shipment or group of shipments is to be paid for by a specific remittance or series of remittances.

The procedure outlined above is varied in some respects in the case of exporters who hold certain special permits from the Board. These special permits and the procedure applicable to the holders of them are described in Section 4 below.

3. PAYMENT FOR EXPORTS

(1) *Exports for Payment in Foreign Exchange*

Exports to the United States and to all other countries outside the sterling area must ordinarily be made for payment within six months of shipment in United States dollars or foreign currencies which may be freely converted into United States dollars. Exports to the sterling area may be made for payment in sterling or in any other foreign currency (or in Canadian dollars, see sub-section (2) below).

NOTE: The "sterling area" means and includes territories under the sovereignty, protection, suzerainty or mandate of His Majesty (except Canada and Newfoundland) and also includes Egypt, the Anglo-Egyptian Sudan, Belgian Congo, Ruanda-Urundi, Iceland, the Faroe Islands, French Cameroons, French Equatorial Africa (composed of Chad, Ubanghi-Chari, Middle Congo and Gaboon), French Settlements in India and French Oceania.

Where goods are being exported for payment in foreign exchange, the exporter should complete the appropriate section of Form B (Section R) indicating that this is the case. If the proper kind of foreign exchange has been or is to be received, the Collector of Customs and Excise to whom the Form B is submitted may approve the necessary export licence.

When an exporter receives payment in foreign exchange for an export, he is required to complete a declaration on the Board's Form C (Declaration of Foreign Exchange Offered for Sale) and offer the foreign exchange for sale to his Authorized Dealer. This declaration is required for every sale to an Authorized Dealer of foreign exchange arising out of exports of goods, regardless of the amount. If the payment declared and sold to the Authorized Dealer on Form C represents the full value of the export, the Authorized Dealer forwards the export licence on Form B and the declaration on Form C to the Board as evidence that the exporter has obtained and made available to the Board the proper kind and amount of foreign exchange arising out of the export.

If partial payment is received for an export, the exporter must declare on Form C and sell to his Authorized Dealer the amount received but the Authorized Dealer retains the export licence on Form B until full payment has been obtained and the foreign exchange sold to the Authorized Dealer.

If an exporter receives full or partial payment for an export in advance of exportation, he should, of course, offer the foreign exchange for sale to his Authorized Dealer immediately and when the export is made, should advise the Authorized Dealer of the port entry number of the export licence on Form B in order that the Authorized Dealer may insert the necessary particulars on the Form B which it receives from the Collector of Customs and Excise and forward it to the Board as evidence that payment has been received for the export.

If an exporter has incurred expenses payable in foreign exchange in connection with an export, he may pay such expenses out of the foreign exchange proceeds received for the export by obtaining a draft from his Authorized Dealer at the time of selling the proceeds of the export to the Authorized Dealer. In such a case, only the balance need be declared on Form C and sold to the Authorized Dealer.

An exporter who has a firm commitment due within ninety days to receive foreign exchange for goods exported or to be exported from Canada may, if he so wishes, protect himself against exchange risks by entering into a forward contract with his Authorized Dealer whereby he engages to deliver a specified amount of foreign exchange to the Authorized Dealer on or by a certain date at a fixed rate of exchange.

The procedure for dealing with foreign exchange received in payment for exports is also varied in some respects in the case of exporters holding certain special permits from the Board. The procedure applicable to such permit holders is described in Section 4 below.

(2) *Exports for Payment in Canadian Dollars*

Exports of goods for payment in Canadian dollars may ordinarily be made only to countries in the sterling area and to Newfoundland.

When goods are being exported for payment in Canadian dollars, the exporter should complete the appropriate section of Form B (Section N) indicating that this is the case. Collectors of Customs and Excise may approve licences on Form B covering exports for payment in Canadian dollars in the following cases :

(a) Goods exported to countries in the sterling area or to Newfoundland.

(b) Goods purchased by a non-resident tourist while in Canada as bona fide tourist purchases which are being shipped to him by the Canadian vendor of the goods. The Form B must be clearly marked "bona fide tourist purchase". "Bona fide tourist purchase" means goods for personal or household use purchased by a non-resident tourist while in Canada and not being exported for resale.

In all other cases of exports of goods for payment in Canadian dollars, Form B must have been approved by an Authorized Dealer *before* being submitted to a Collector of Customs and Excise. In most cases Authorized Dealers are required to refer the applications to the Board before granting such approval.

(3) *Exports for Which no Settlement has been or will be Received*

While it is a general principle of foreign exchange control that foreign exchange should be made available for the fair value of every export of goods, there are certain cases of the kinds described below where normal practices require that goods be exported without any settlement or payment being received. In addition, goods may ordinarily be exported for no payment to the United Kingdom and to other countries in the sterling area and to Newfoundland.

Where an export is being made of goods for which no settlement has been or will be received, the exporter should complete the appropriate section of Form B (Section O) indicating that this is the case. Collectors of Customs and Excise have authority to approve licences on Form B covering exports of goods for no payment or settlement in the following cases :

(a) Goods exported to countries in the sterling area or to Newfoundland.

(b) Goods which if being imported into Canada, would be entitled to entry under items 706, 707 or 708 of the Customs tariff.

(c) Travellers' samples.

(d) Printing plates, electrotypes, matrices and similar articles used in the printing trade if being exported without charge by or for use in newspapers or periodicals, or re-exported after having been imported without charge by or for use in newspapers or periodicals.

(e) Goods of no commercial value, including samples exported for test and samples re-exported after having been imported for test;

(f) Goods exported temporarily for repairs, adjustments or to be tested, such that on return to Canada they will be eligible for entry on payment of duty on the value of repairs, adjustments or tests only.

(g) Properly identified empty containers or covers which are to be returned to Canada for entry under item 709 of the Customs tariff.

(h) Animals and articles entered ex-warehouse for export after having been imported for exhibition or convention purposes.

(i) Vessels or vehicles operating internationally except in respect of the last exportation from Canada of any such vessel or vehicle which changes its ownership or ceases to operate internationally.

(j) Imported periodicals or covers of imported periodicals being re-exported from Canada.

(k) Stores, equipment and supplies exported by a railway company which operates lines in both Canada and the United States, provided that such stores, equipment and supplies are being exported for its own use and are not being exported for sale outside Canada.

In all other cases Form B must have been approved by an Authorized Dealer *before* being submitted to a Collector of Customs. In certain cases Authorized Dealers have authority to approve exports of goods for no settlement and in other cases they will refer the applications to the Board.

It should be noted particularly that the approval of an Authorized Dealer is necessary for exports, other than to the sterling area or Newfoundland, of settlers' effects, gifts of a value of more that $5 and of imported goods which are not in accordance with order unless credit in United States dollars is to be received for their return.

(4) *Exports where Payment being Received by a Person other than the Exporter*

Certain cases arise where the supplier of goods is not the person who will receive payment from the non-resident buyer. The supplier is thus unable to state on Form B that he will be receiving foreign exchange which he will sell to his Authorized Dealer. In such cases it is suggested that the person who is to receive payment from the non-resident buyer be shown on Form B as the owner and that Form B be completed in such a manner that it will be sent to his Authorized Dealer. The following examples illustrate the procedure which should be followed :

(a) A non-resident buys goods through a resident agent but makes payment direct to the resident supplier. Form B should be made out in the name of the resident supplier and the name of his Authorized Dealer should be shown on the form.

(b) A non-resident buys goods through a resident agent and makes payment to the agent. The resident agent should be regarded as the owner and Form B made out in his name showing his Authorized Dealer.

In any case of this kind where difficulty is encountered, the matter should be discussed with a Collector of Customs or an Authorized Dealer or the facts should be placed before the Board.

(5) *Special Procedure for Certain Exports to the United States*

In some cases a resident of the United States purchases goods to be exported from Canada and pays for them with Canadian funds which he has obtained by selling United States dollars to an Authorized Dealer in Canada. This procedure results in United States dollars being made available to Canada for the goods and there is no objection to it, but since the payment to the Canadian supplier is made in Canadian dollars, he is unable to state that he has received foreign exchange when he is applying for a licence on Form B at the time of export. The method suggested for overcoming this difficulty is that the resident of the United States, when selling United States dollars to an Authorized Dealer, will complete Form C (or his Authorized Dealer can complete it on his behalf) stating thereon that the funds are being sold for the purpose of paying for Canadian exports and giving brief particulars of the goods. Form B for the export of the goods should be made out in the name of the resident of the United States by himself or his shipping agent or the Canadian supplier, showing thereon the name and address of the Authorized Dealer to whom the United States dollars were sold and, in Section R of the form, the reference number of the Form C in question.

4. SPECIAL PERMITS

As outlined in Section 2, the ordinary procedure with respect to exports of goods is that the exporter must account for and declare and sell to his Authorized Dealer as soon as received the foreign exchange received for each export. In order to facilitate the carrying on of ordinary commercial transactions and the continuance of the previous practices of certain types of exporters, the Board has, however, established various special procedures. In appropriate cases, special permits are issued by the Board under which the permit holder, instead of accounting for the proceeds of each individual shipment, furnishes the Board with periodic reports containing the information the Board requires. The Board's examiners may examine the permit holders' books and records in order to verify the reports made to the Board and obtain any other information required.

(1) *BD Permit—Operation of Foreign Currency or Inter-Company Account*

Provision has been made to enable resident commercial companies (whether or not incorporated) to receive settlement for exports through inter-company accounts or to operate foreign currency bank accounts to which payments received for exports may be deposited. Application for such a permit may be made to the Board at Ottawa by letter giving full particulars and, if granted, a permit number will be assigned bearing the prefix "BD".

A BD permit holder is required to obtain licences on Form B in the same manner and in the same circumstances as other exporters (see Sections 2 and 3 above) but instead of inserting the name of its Authorized Dealer, must insert its permit number in the space provided on the form. No copy of Form B is sent to the permit holder's Authorized Dealer and a set of at least four copies only of the form need, therefore, be completed and submitted to the Collector of Customs and Excise at the port of exit.

Foreign exchange received by a BD permit holder in payment for exports and other commercial transactions, may be deposited in the permit holder's foreign currency account and disbursed from that account for imports and other proper commercial purposes. Accumulations of foreign exchange arising from exports, which will not be required for commercial purposes within a period not exceeding three months, must, however, be sold to the permit holder's Authorized Dealer from time to time and, similarly, balances due for transactions recorded in inter-company accounts must be collected in foreign exchange and sold to the permit holder's Authorized Dealer. The Board's Form C must be completed for every sale of foreign exchange by a BD permit holder to an Authorized Dealer arising out of exports, regardless of the amount. The form must bear the number of the BD permit in the space provided and must contain sufficient particulars to enable the Board to determine adequately the nature of the transaction.

A BD permit holder may export goods on consignment for payment not later than six months after the date of exportation or within such further time as may be permitted by the Board.

A BD permit holder is subject in the same manner as other exporters to the provisions outlined in Section 3 above with respect to the kind of foreign exchange to be received for exports and the conditions under which exports may be made for payment in Canadian dollars or for no settlement.

Instead of accounting to its Authorized Dealer for individual payments received for exports, a BD permit holder furnishes the necessary particulars to the Board on a monthly return on Form

BDE which must be reconciled with its export licences on Form B for the period covered by the return.

(2) *BE Permit—Special Export-Import Permit*

A company (whether or not incorporated) whose export business is of such a nature that it is unable to identify payments received for exports with individual export licences on Form B, and which does not hold a BD permit, should apply to the Board for a special export-import permit. Application should be made to the Board at Ottawa on Form BE and if granted, a permit number will be assigned bearing the prefix "BE".

A BE permit holder is required to obtain export licences on Form B in the same manner and in the same circumstances as other exporters (see Sections 2 and 3 above) but instead of inserting the name of its Authorized Dealer, must insert its permit number in the space provided on the form. No copy of Form B, is sent to a BE permit holder's Authorized Dealer and a set of at least four copies only of the form need, therefore, be completed and submitted to the Collector of Customs and Excise at the port of exit.

A BE permit holder is required to declare on Form C and offer for sale to its Authorized Dealer as soon as received, all foreign exchange obtained in settlement for exports. The Form C must bear the BE permit number and contain sufficient particulars to enable the Board to determine the nature of the transaction.

A BE permit holder may export goods on consignment for payment in each case not later than six months after the date of exportation or within such further time as may be permitted by the Board.

A BE permit holder is subject in the same manner as other exporters to the provisions outlined in Section 3 above with respect to the kind of foreign exchange to be received for exports and the conditions under which exports may be made for payment in Canadian dollars or for no settlement.

Instead of reconciling to its Authorized Dealer individual payments received for exports with export licences on Form B, a BE permit holder furnishes the Board with the necessary information in a monthly return on Form BDE.

(3) *NS Permit—Non-Resident doing Business in Canada*

Non-residents who are carrying on business in Canada without maintaining a resident branch office and who have occasion to make exports from Canada in their own name, may apply to the Board through an Authorized Dealer for permission to operate a resident bank account. If such permission is granted, a permit number will be assigned bearing the prefix "NS". Full details of the facilities available in such cases may be obtained from an Authorized Dealer or from the Board but, in general, the procedure with respect to exports is that NS permit holders must insert their permit number in the space provided at the top of Form B instead of the name of their Authorized Dealers and complete a set of at least four copies of the form for each export. NS permit holders are subject in the same manner as other exporters to the provisions of Section 3 above with respect to the kind of foreign exchange to be received for exports and the conditions under which exports may be made for payment in Canadian dollars or for no settlement, but instead of reconciling to their Authorized Dealers individual payments received for exports with export licences on Form B, they submit periodic returns to the Board on Form NS.

5. TRANSPORTATION CHARGES

If freight, express or other transportation charges on exports from Canada are to be prepaid in Canadian dollars, such payment must be made by the resident exporter or by a resident agent delivering the goods for shipment. It is not necessary for such charges to be prepaid and if the non-resident importer so desires, he may buy goods f.o.b. some point in Canada and pay the freight and other charges on delivery in his own country.

A resident may pay freight due to a carrier operated by a resident of Canada or Newfoundland only in Canadian dollars.

A resident exporting goods from a Canadian port on a ship operated by a non-resident may pay ocean freight charges only in Canadian dollars to the non-resident operator's resident shipping agent. If the freight is expressed as payable in foreign exchange, the exporter will pay the resident agent the equivalent in Canadian dollars at the official rate of exchange.

A resident exporting goods from Canada through a port in the United States on a ship operated by a non-resident may pay ocean freight charges as follows :

(a) If the goods are consigned to a country outside the sterling area, in United States dollars disbursed from a U.S. dollar account operated under a BD permit or obtained on application to an Authorized Dealer.

(b) If the goods are consigned to a country in the sterling area on a ship operated by a non-resident other than a resident of the sterling area, in United States dollars in the same manner as in (a) above.

(c) If the goods are consigned to a country in the sterling area on a ship operated by a resident of the sterling area, in sterling or Canadian dollars transferred to the operator or to another resident of the sterling area. Sterling may be disbursed for this purpose from a sterling account operated under a BD permit or may be obtained on application to an Authorized Dealer. If it is desired to make payment in Canadian dollars, application should be made to an Authorized Dealer for the necessary permission to do so.

Where freight, express or other transportation charges on exports from Canada are paid by a resident exporter, the amount must be charged to and recovered from the consignee in United States dollars unless the goods are consigned to Newfoundland or to a country in the sterling area in which case they may be recovered in sterling or in Canadian dollars.

6. EXPORTS TO NEWFOUNDLAND

Export licences on Form B are required for exports to Newfoundland in the same manner as for exports to other countries. Payment for such exports is to be made in Canadian dollars and as stated in Section 3, Forms B covering exports to Newfoundland may be approved by a Collector of Customs and Excise whether for payment in that manner or for no payment.

7. EXPORTS BY MAIL OR PARCEL POST

Exports of goods by mail or parcel post are subject to the same licence requirements as exports made by express or freight. When making an export of goods by mail or parcel post for which a licence is required, the sender should present Form B to the Postmaster at the point of mailing.

In cases where no export licence on Form B is ordinarily required (*e.g.* goods of a value not exceeding $5 and gifts to members of the Armed Forces), the sender should submit the goods for examination by the Postmaster at the point of mailing who will, if satisfied that no Form B is necessary, certify that the parcel has been passed for export. If this is not done, there may be needless delay in delivery of the parcel.

8. EXPORT OF CAPITAL

One of the primary purposes of the Foreign Exchange Control Order is to prevent unauthorized exports of capital and exporters should note that, unless the approval of the Board has been obtained, it constitutes an export of capital and is an offence under the Order—

(a) To export from Canada to a country outside the sterling area and Newfoundland property for which no settlement has been or is to be received, or

(b) To sell any property for export to a country outside the sterling area or Newfoundland, or to sell any property exported from Canada to such a country, or to export from Canada to such a country any property which has been sold on terms which provide for payment of a price less than the fair value thereof or on terms which provide for payment more than six months after shipment, or

(c) To fail to take reasonable steps to collect a debt owing by a non-resident with respect to goods or other property exported or to be exported from Canada to a country outside the sterling area or Newfoundland or to grant an unreasonable extension of time for payment of any such debt.

9. FORMS AND APPLICATIONS

Copies of the various forms referred to in this Bulletin may be obtained as follows :

Form B —from Collectors of Customs and Excise or from railway and express companies.

Form C —from Authorized Dealers

Forms BDE, BE and NS—from Authorized Dealers or from the Board.

Applications for export licences on Form B (combined with Customs export entry Form B. 13) are made to a Collector of Customs and Excise at the time of submitting Customs export entries but in certain cases mentioned in Section 3 above, the form must have been approved previously by an Authorized Dealer.

Applications for BD permits may be made to the Board at Ottawa by letter setting forth full particulars.

Declarations on Form C and applications for NS permits should be made to the applicant's Authorized Dealer.

10. FURTHER INFORMATION

Further particulars and latest information concerning the procedure under the Foreign Exchange Control Order and Regulations for the exportation of goods, may be obtained from Authorized Dealers, Collectors of Customs and Excise or by writing to the

Foreign Exchange Control Board at the following offices :

Ottawa, Canada;

201 Notre Dame Street West, Montreal, (for enquiries from the Montreal area);

67 Yonge Street, Toronto, (for enquiries from the Toronto area);

Marine Building, Vancouver, (for enquiries from British Columbia).

In addition to this Bulletin, the following Bulletins have been issued by the Foreign Exchange Control Board and may be obtained by writing to the Board :

No. 1. Foreign Exchange Control — General Principles and Operation.
No. 3. Imports of Goods.
No. 4. Travel by Residents of Canada.
No. 5. Securities Transactions.

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Foreign Exchange Control Board

BULLETIN No. 3

IMPORTS OF GOODS

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IMPORTS OF GOODS

1. GENERAL PRINCIPLES

The main purpose of foreign exchange control is to balance as far as possible Canada's income and outgo of United States dollars in order to ensure that United States dollars will be available as required to obtain vital war and other imports and at the same time to meet contractual obligations payable in United States currency. The largest demand upon Canada's United States dollar resources is for the payment of goods imported into this country. These goods consist of aeroplanes and other equipment for our armed forces, machinery and materials essential for the establishment and operation of our war industries as well as those commodities which are essential to carrying on the civilian life of Canada. In providing United States dollars to pay for these imports, it is important for the Foreign Exchange Control Board to know that the goods have actually entered Canada or will be received within a reasonable time and that the payments made are not in excess of the fair value of the goods.

The necessary control over payment for imports is obtained by requiring importers to substantiate every payment for goods imported or to be imported into Canada with evidence that the importation has been made and of the cost of the goods. For this purpose, every importation requires a "licence" issued by a Collector of Customs and Excise on behalf of the Foreign Exchange Control Board at the time of entry through Customs. The Board does not exercise any control over the kinds of goods which may be imported and its "licence" serves merely as evidence that the goods have been imported legally into Canada. The Board's "licence" does not, however, authorize any importation which is prohibited or which requires a licence or permit under any other law, *e.g.* under the War Exchange Conservation Act, 1940.

The Board is also concerned that payment for imports to Canada should be made in the proper kind of foreign exchange. Goods imported from the United States and other non-sterling area countries may ordinarily be paid for only in United States dollars, whereas goods imported from sterling area countries may be paid for in sterling, of which Canada has a surplus, or in Canadian dollars. Accordingly, in order that Canada's available United States dollars may be conserved to pay for goods that can be obtained only in the United States or other non-sterling area countries, the only foreign currency which may be used to pay for goods imported from any country in the sterling area, whether directly or indirectly, is sterling or the currency of a sterling area country.

2. APPLICATION FOR LICENCE TO IMPORT GOODS—FORM E

A licence on the Board's Form E is required for every importation of goods into Canada for which Customs entry is made on Customs entry form B. 1 (Entry for Home Consumption), B. 5 (Entry for Warehouse), or B. 11 (Bill of Sight or Sight Entry) except in the case of imports of periodical publications. Form E corresponds in size and detail with Customs forms B. 1, B. 5 and B. 11 and one copy is required which may be prepared by the importer as one of a set of the appropriate Customs forms. Form E is presented to the Collector of Customs and Excise at the time Customs entry is passed when it will be duly numbered, stamped and signed by the Collector and returned to the importer, upon which it constitutes a licence for the Board's purposes for the importation of the goods.

No Foreign Exchange Control Board licence is required for any importation of goods into Canada which is not entered through Customs by the use of Customs forms B. 1, B. 5 or B. 11. The Board's Form E is not to be used in connection with any Customs import entry on Customs forms B. 1, B. 5 or B. 11 which are completed solely as amending or perfecting entries.

3. PAYMENT FOR IMPORTS

(1) *Payment in Foreign Exchange*

The Board provides foreign exchange in payment for any goods legally imported into Canada. As mentioned above, however, the only foreign currency which may be used or obtained to pay for goods imported either directly or indirectly from any part of the sterling area is sterling or the local currency of a sterling area country. No payments may be made in United States dollars for goods originating in sterling area countries even though the goods have been bought from or through agents, middlemen or associated companies in the United States unless special permission is obtained from the Board prior to payment.

NOTE : The sterling area means and includes territories under the sovereignty, protection, suzerainty or mandate of His Majesty (except Canada and Newfoundland) and also includes Egypt, the Anglo-Egyptian Sudan, Belgian-Congo, Ruanda-Urundi, Iceland, the Faroe Islands, French Cameroons, French Equatorial Africa (composed of Chad, Ubanghi-Chari, Middle Congo and Gaboon) French Settlements in India and French Oceania.

An importer who desires to obtain foreign exchange to pay for imports must apply to his Authorized Dealer, (*i.e.* the bank in Canada with which he ordinarily does business). Except in the case of certain small payments, application must be made on the Board's Form F (Application for Foreign Exchange). In support of his application the importer must surrender to the Authorized Dealer the licence on Form E which he has obtained from the Collector of Customs and Excise and the Authorized Dealer may then sell him foreign exchange in an amount not exceeding the invoiced price of the import as declared on Form E.

If the importer's Form E has been lost or mislaid or if the amount to be paid for the import is greater than that shown on the Form E, the importer should obtain a certified copy of the relative Customs import entry form (not the Board's Form E) and make application to the Board through his Authorized Dealer for the necessary authority to make payment for the import.

If payment for an import is being made in full, the import licence on Form E and the application for foreign exchange on Form F are forwarded to the Board by the Authorized Dealer as evidence that the goods have entered Canada and that the proper kind and amount of foreign exchange has been provided to pay for the import. If partial payment is being made for an import, the importer must deliver his Form E to his Authorized Dealer when applying for permission to make the initial payment. The Authorzed Dealer retains the Form E as authority to approve further payments on account and when the final payment is made, forwards the form to the Board.

Payment may be made for goods in advance of their actual importation into Canada in the circumstances mentioned in subsection (3) below and when this is done, the importer must surrender the relative import licences on Form E to his Authorized Dealer as soon as the import has been cleared through Customs.

Where imports have been made for which a licence on Form E is not required, the importer, when applying to his Authorized Dealer for foreign exchange, must exhibit one copy of the Customs import entry form (usually Customs Form E. 46) or of the Customs Invoice upon which the entry was based. The Authorized Dealer will mark these documents to indicate that they have been submitted in substantiation of an application for foreign exchange and will return them to the importer. An Authorized Dealer may also sell foreign exchange in advance of the importation of goods for which an import licence on Form E is not necessary, if satisfied that the importer will exhibit Customs import entry forms or Customs Invoices as soon as they have been obtained.

An importer may not use or obtain foreign exchange to pay for goods of non-sterling area origin which are to be shipped to another foreign country or which are to be imported into Canada for re-export at a later date except where the goods are to be processed in Canada prior to export.

The procedure outlined above concerning the payment for imports is varied in some respects in the case of importers who hold certain special permits from the Board. These special permits and the procedure applicable to the holders of them are dealt with in Section 4 below.

(2) *Payment in Canadian dollars*

The Board also permits payment to be made in Canadian dollars for goods legally imported into Canada, except that Canadian dollars may not be paid to a non-resident who is not a resident of the sterling area for imports of goods originating in the sterling area. If an importer desires to transfer Canadian dollars to a non-resident of Canada in payment of an importation of goods, he must apply to his Authorized Dealer using the Board's Form G (Application to Transfer Canadian Dollars to a Non-resident) except in the case of certain small payments. No application to an Authorized Dealer is, however, necessary if the payment is to a resident of Newfoundland or to a non-resident who is operating a special resident bank account in Canada. (See Section 4, sub-sections (3) and (4) below). Applications to transfer Canadian dollars to a non-resident in payment for imports must be supported by the production of licences on Form E in the same manner as applications for foreign exchange.

While an importer may wish to pay Canadian dollars to a non-resident in settlement for imports, arrangements have been made whereby the non-resident supplier may, in certain cases, obtain foreign exchange at the official rate for such payment. If the goods did not originate in the sterling area and the non-resident supplier is a resident of a country outside the sterling area, the Authorized Dealer, when approving the importer's application on Form G, may mark the cheque, draft or other instrument of payment with a rubber stamp to indicate that any Authorized Dealer in Canada to whom the item is presented by a non-resident, may provide foreign exchange at the current official rate. If such a non-resident supplier receives a cheque, draft or other instrument payable in Canadian dollars in settlement for imports to Canada (originating elsewhere than in the sterling area) which is not so marked, he may nevertheless forward the item through his bank with a request that foreign exchange be provided. The bank in Canada to whom the item is sent for collection may then arrange to remit United States dollars for the Canadian dollar equivalent. This arrangement is not necessary in the case of payments in Canadian dollars to residents of countries in the sterling area since Canadian dollars are negotiable in those countries at official rates.

(3) *Prepayment*

Payment may not be made for any goods to be imported into Canada unless any permits required under the War Exchange Conservation Act, 1940, and any other licences or permits necessary for the importation of goods into Canada (other than the Board's licence on Form E) have been obtained from the appropriate Government authority.

In addition, unless the specific authority of the Board has been obtained, no foreign exchange may be purchased or used and no transfers of Canadian dollars may be made to non-residents to pay for goods in advance of their importation into Canada, unless

(a) The goods originate in the sterling area and are to be shipped direct to Canada, or

(b) The goods originate in the United States and are to be imported into Canada within ninety days, or

(c) The goods originate elsewhere than in the United States but have already reached the United States and are to be imported into Canada within ninety days, or

(d) Negotiable shipping documents (which must include "on board" bills of lading) have been submitted to the importer's Authorized Dealer or to its correspondent in the United States.

Similarly, unless the specific authority of the Board has been obtained, letters of credit may be opened only where the terms of payment conform with the provisions of the preceding paragraph.

An importer who has a firm commitment due within ninety days to pay for goods to be imported into Canada, may enter into a forward contract with his Authorized Dealer to purchase the foreign exchange required. Unless the specific authority of the Board has been obtained, he may not, however, obtain delivery of foreign exchange under such forward contract except in cases where he could have purchased foreign exchange for payment of imports.

(4) *Payment by Person other than Actual Importer*

In some cases, goods are imported into Canada by one resident and payment to the non-resident supplier is made by another resident. In such cases, the importer of the goods should endorse the Form E, which he obtained at the time of entering the goods through Customs, in the space provided for that purpose and deliver it to the resident who is to make payment to the non-resident supplier. The resident who is making payment will then surrender the form to his Authorized Dealer in support of his application to obtain foreign exchange or to transfer Canadian dollars to the non-resident.

(5) *Payment for Imports from the United Kingdom*

Before exporters in the United Kingdom can clear shipments for Canada, they are required to file a declaration with the authorities there showing, among other particulars, the approximate date on which payment will be received and a description of the method of payment.

United Kingdom exporters are required to obtain payment for exports to Canada in one of the following manners :

(a) in sterling from a Canadian account (*i.e.* sterling purchased by the Canadian importer from an Authorized Dealer in Canada or sterling disbursed from an account operated by the importer in the United Kingdom under the authority of the Board.)

(b) in Canadian dollars.

(c) by means of a sterling letter of credit where the cover for drawings is furnished from a Canadian account (*i.e.* by an Authorized Dealer in Canada or by sterling disbursed from an account operated by the importer in the United Kingdom under the authority of the Board.)

When ordering goods from the United Kingdom, Canadian importers should indicate in which manner payment is to be made in order that the exporter may clear the goods through the United Kingdom Customs without delay.

4. SPECIAL PERMITS

As outlined in Section 3, the ordinary procedure with respect to the payment for imports is that each individual payment to a non-resident must be substantiated by an import licence and approved by an Authorized Dealer. In order to facilitate the carrying on of ordinary commercial transactions and the continuance of the previous practices of certain types of importers, the Board has established various special procedures. In appropriate cases special permits are issued by the Board under which the permit holders, instead of substantiating individual payments for imports, furnish the Board with periodic reports containing the information the Board requires. The Board's examiners may also examine the permit holders' books and records in order to verify the reports made to the Board and to obtain any other information required.

(1) *BD Permit—Operation of Foreign Currency and Inter-Company Accounts*

Provision has been made to enable resident commercial companies (whether or not incorporated) to settle for imports through inter-company accounts or to operate foreign currency bank accounts from which payment for imports may be made. Application for such a permit may be made to the Board at Ottawa by letter giving full particulars and, if granted, a permit number will be assigned bearing the prefix "BD".

A BD permit holder is required to obtain import licences on Form E in the same manner and in the same circumstances as other importers (see Section 2 above) but these do not need to be surrendered to the permit holder's Authorized Dealer in support of applications for foreign exchange or to transfer Canadian dollars to non-residents in payment for such imports. Foreign exchange so purchased and foreign exchange received for exports and other commercial transactions may be deposited in the permit holder's authorized foreign currency account and disbursed from that account in payment for imports and other proper commercial purposes. Instead of surrendering import licences on Form E to its Authorized Dealer, the permit holder furnishes the Board with a monthly return on Form BDE showing the settlements made for imports and other transactions and accompanied by and reconciled with import licences on Form E for the period covered by the return.

In paying for imports from a foreign currency account or through an inter-company account and in applying to Authorized Dealers for foreign exchange or for permission to transfer Canadian dollars to non-residents, a BD permit holder is subject in the same manner as other importers to the provisions outlined in Section 3 above regarding the kind of foreign currency which may be used to pay for imports and the circumstances under which payment may be made for imports in advance of importation.

All Forms E, F or G completed by BD permit holders should show prominently their permit numbers and should contain sufficient particulars to enable the Board to determine adequately the nature of the transactions.

(2) *BE Permit—Special Export-Import Permit*

A company (whether or not incorporated) whose import business is of such a nature that it is unable to identify payments made for imports with individual import licences on Form E, and which does not hold a BD permit, should apply to the Board for a special export-import permit. Application should be made to the Board at Ottawa on Form BE and, if granted, a permit number will be assigned bearing the prefix "BE".

A BE permit holder is required to obtain import licences on Form E in the same manner and in the same circumstances as other importers (see Section 2 above) and is required to apply to an Authorized Dealer for permission to transfer Canadian dollars or to obtain foreign exchange to remit to non-residents in settlement. Import licences on Form E need not, however, be surrendered to the permit holder's Authorized Dealer in support of such applications. Instead the permit holder furnishes the Board with a monthly return on Form BDE giving particulars of payments for imports and accompanied by and reconciled with import licences on Form E for the period covered by the return.

BE permit holders are subject to the provisions outlined in Section 3 above concerning the kind of foreign currency which may be used to pay for imports and the circumstances under which payment may be made for imports in advance of importation.

Forms E, F and G completed by BE permit holders should show prominently their permit numbers and contain sufficient particulars to enable the Board to determine the nature of the transactions.

(3) *CF Permit—Imports on Consignment*

A number of non-residents import goods into Canada on consignment in their own names. Under the ordinary procedure each resident to whom such goods are sold would have no import licences on Form E to support applications to an Authorized Dealer for foreign exchange to pay the importer or for permission to transfer Canadian dollars to him in settlement for the goods. In order that such importers may continue their usual practice and may obtain foreign exchange for their net earnings in Canada, provision has been made whereby they may operate special resident bank accounts in Canada. An application to operate such an account may be made to the Board through an Authorized Dealer by the non-resident importer or by his resident agent and, if granted, a permit number will be assigned bearing the prefix "CF".

Since an account operated under a CF permit is regarded as a resident account, payments by residents to the non-resident importer for deposit to the account do not require any permit. Payments may be made out of the account to residents of Canada without permit. Such an account is to be used solely for a non-resident importer's consignment business. The only deposits which may be made to the account are the proceeds of the sale of goods imported on consignment, of foreign exchange sold to an Authorized Dealer, or of loans from the Authorized Dealer as the non-resident importer's banker and all the non-resident importer's expenses in Canada and repayment of Canadian bank loans are to be paid from the account. The non-resident importer may apply to his Authorized Dealer from time to time for foreign exchange or for permission to transfer Canadian dollars in an amount not exceeding the credit balance in his special resident account.

The holder of a CF permit is required to obtain import licences on Form E in the same manner as any other importer but need not produce them to an Authorized Dealer in support of applications for foreign exchange or to transfer Canadian dollars. Instead, all import licences on Form E must be accumulated and forwarded to the Board by the permit holder or his resident agent along with a monthly report on Form CF giving particulars of the various entries through the special resident bank account during the period covered by the report.

All Forms E, F and G completed by a CF permit holder and relating to imports on consignment should contain the permit holder's CF permit number and sufficient details to enable the Board to determine the true nature of the transactions.

(4) *NS Permit—Non-Resident Doing Business in Canada*

Non-residents who are carrying on business in Canada without maintaining a resident branch office (except those to whom a CF permit is applicable) may also apply to the Board through an Authorized Dealer for permission to operate a resident bank account and if such permission is granted, a permit number will be assigned bearing the prefix "NS". In general, the routine operation of a resident bank account under an NS permit is similar to bank accounts operated under CF permits. A monthly report is made to the Board on Form NS by the permit holder or by his resident agent accompanied by any Forms E covering imports during the period covered by the report.

5. IMPORTS FROM NEWFOUNDLAND

Import licences on Form E are required for imports into Canada from Newfoundland in the same manner as imports from other countries but no permit on Form G is necessary to pay or transfer Canadian dollars to a resident of Newfoundland and the relative Forms E need not, therefore, be surrendered to an Authorized Dealer. Foreign exchange may not be sold or used in payment of imports from Newfoundland.

6. TRANSPORTATION CHARGES

A transportation agency making delivery under a bill of lading on which goods are carried into Canada, other than a prepaid bill of lading, may not accept payment of the transportation charges in Canadian dollars from any person other than the importer of the goods or a resident agent who accepts delivery of the goods. Any resident agent accepting delivery of goods for a non-resident may accept repayment from such non-resident only in United States dollars unless the non-resident importer is a resident of the sterling area, in which case repayment may be accepted in Canadian dollars or in any foreign currency.

A resident may pay freight due to a carrier operated by a resident of Canada or Newfoundland only in Canadian dollars.

A resident importing goods through a Canadian port on a ship operated by a non-resident may pay ocean freight charges only in Canadian dollars to the non-resident operator's resident shipping agent. If the freight is expressed as payable in foreign exchange, the importer will pay the resident agent the equivalent in Canadian dollars at the official rate of exchange.

A resident importing goods into Canada through a port in the United States on a ship operated by a non-resident may pay ocean freight charges as follows :

(a) If the goods are consigned from a country outside the sterling area, in United States dollars disbursed from a U.S. dollar account operated under a BD permit or obtained on application to an Authorized Dealer.

(b) If the goods are consigned from a country in the sterling area on a ship operated by a non-resident other than a resident of the sterling area, in sterling eligible for credit to a U.S. registered sterling account. Such sterling may be obtained on application to an Authorized Dealer and may be negotiated in the United States for United States dollars by the non-resident operator. United States dollars may not be obtained or used in such a case nor may payment be made in Canadian dollars.

(c) If the goods are consigned from a country in the sterling area on a ship operated by a resident of the sterling area, in sterling or Canadian dollars transferred to the operator or to another resident of the sterling area. Sterling may be disbursed for this purpose from a sterling account operated under a BD permit or may be obtained on application to an Authorized Dealer. If it is desired to make payment in Canadian dollars, application should be made to an Authorized Dealer for the necessary permission to do so.

7. EXPORT OF CAPITAL

One of the primary purposes of the Foreign Exchange Control Order is to prevent unauthorized exports of capital from Canada and importers should note that it constitutes an export of capital and is an offence under the Order to purchase any goods or other property for import into Canada at a price greater than their fair value, to import such goods or property into Canada or to pay to a non-resident for goods or other property imported into Canada an amount greater than their fair value.

8. FORMS AND APPLICATIONS

Copies of the various forms referred to in this Bulletin may be obtained as follows:

Form E —from Collectors of Customs and Excise

Forms F and G —from Authorized Dealers

Forms BDE, BE, CF and NS—from Authorized Dealers or from the Board.

Applications for import licences on Form E should be made to a Collector of Customs and Excise at the time customs entry is passed.

Applications for BD or BE permits should be made to the Board at Ottawa.

Applications on Form F or G and for CF or NS permits should be made to the applicant's Authorized Dealer.

9. FURTHER INFORMATION

Further particulars and latest information concerning the procedure under the Foreign Exchange Control Order and Regulations for the importation of goods may be obtained from Authorized Dealers, Collectors of Customs and Excise or by writing to the Foreign Exchange Control Board at the following offices:

Ottawa, Canada.

201 Notre Dame Street West, Montreal, Que. (for enquiries from the Montreal area).

67 Yonge Street, Toronto, Ont. (for enquiries from the Toronto area).

Marine Building, Vancouver, B.C. (for enquiries from British Columbia).

In addition to this Bulletin the following Bulletins have been issued by the Foreign Exchange Control Board and may be obtained by writing to the Board:

No. 1. Foreign Exchange Control — General Principles and Operation.
No. 2. Exports of Goods.
No. 4. Travel by Residents of Canada.
No. 5. Securities Transactions.

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Foreign Exchange Control Board

BULLETIN No. 4

Travel by Residents of Canada

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1. TRAVEL PERMITS

Under the Foreign Exchange Control Order no resident of Canada may leave Canada unless he has obtained a permit from the Foreign Exchange Control Board or unless he is exempted under the Regulations of the Board. (The various exemptions are referred to in Section 3 of this Bulletin and the cases where travel permits may be granted are outlined in Sections 4 and 5).

The travel permit which must be obtained from the Board is entirely separate from and additional to the passport and visa which, in the case of Canadian citizens, are necessary to visit the United States by reason of the requirements of the United States Immigration authorities.

NO AMERICAN TOURIST OR VISITOR TO CANADA NEEDS ANY PASSPORT OR PERMIT TO ENTER OR LEAVE CANADA AS OFTEN AS HE PLEASES. No person who is ordinarily resident outside of Canada is in any way affected by these provisions. The permit requirement applies only to persons whose ordinary residence is in Canada.

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2. GENERAL TRAVEL POLICY

Foreign exchange control was adopted in Canada as an important and integral part of the Canadian war effort. One of the main purposes of foreign exchange control is to conserve the foreign resources of Canada and to safeguard its purchasing power abroad so that the Dominion may continue to make the many expenditures in other countries, particularly the United States, which are essential for the effective prosecution of the war.

Canada's total expenditures in the United States, a large part of them for aeroplanes, guns and other war equipment, are now running at record levels. They are far higher than in any previous year and far higher than the amount which Canada receives from the United States in payment for exports and other transactions, including receipts from American tourists. In order to equalize income and outgo as nearly as possible and limit the drain upon Canada's reserves, it is increasingly necessary to limit private and personal expenditures which Canadians might wish to make in the United States and divert those United States dollars to expenditures vital for war purposes.

When the war began, the whole of the foreign resources of Canadians became, by virtue of the Foreign Exchange Control Order, actually or potentially part of a common pool at the disposal of the nation to be used as the national interest demanded. Canadians had to give up the right of using Canada's foreign resources, for example, to purchase stocks and bonds in the United States. Foreign exchange was, and still is, released for payment of bona fide debts as they became due but all other capital exports were terminated. As war expenditures gathered momentum, restrictions were also placed on current payments such as those for imports and for travel abroad. In the 1940 budget a War Exchange Tax of 10% of the value of all goods imported from non-British Empire countries was imposed with the object not only of raising revenue but of reducing non-essential imports. At the same time heavy sales taxes and excise taxes were imposed on a number of luxury goods of a kind which are imported in substantial quantities. Subsequently, in a special budget of December 1940, a further step to restrict expenditures abroad for luxuries and semi-luxuries was taken through an embargo placed upon the importation of a large number of commodities of this character. Provision was also made for the granting of permits on a decreasing scale for a number of other commodities.

On July 5, 1940, the Minister of Finance announced the Government's decision that United States funds could no longer be provided for pleasure travel. The Hon. J. L. Ralston, then Minister of Finance, said :

> "Much as Canadians would like to continue their practice of visiting their friends in the United States, the time has come when this ought to be regarded as a luxury which we should forego so as to maintain the flow of war supplies and essential commodities which have the first call upon Canada's foreign resources. There is no doubt that Canadians are determined to bend every effort towards winning the war. Canadians ask what they can do. The answer is that we can deny ourselves the enjoyment of travel for pleasure purposes in the United States and thus save those United States dollars for Canada to purchase war supplies and essential commodities from our neighbour to the South. I believe that the people of this Dominion will readily accept this opportunity to help Britain and to help Canada".

In considering measures by which valuable foreign exchange may be diverted from less important to more important uses, regard must be had to those which affect the largest possible amounts of foreign exchange with the least possible sacrifice on the part of those concerned. It is estimated that the travel policy will enable from $60,000,000 to $75,000,000 in United States funds to be conserved for essential purposes without imposing any actual monetary sacrifice upon the Canadian people. The interference with the personal pleasure and convenience of a large number of Canadians is an unavoidable result of an "all-out" war effort.

It is important to note that expenditures of Canadian dollars in the United States by Canadians have virtually the same result as expenditures of United States dollars and restrictions imposed on the use of United States funds for pleasure travel apply equally to expenditures of Canadian dollars.

This explanation of Canada's foreign exchange situation and the relationship of the present travel policy to the war has been given for the information of Canadians and Americans alike. The Board is confident that it can depend upon the co-operation of all loyal Canadians to subordinate personal desires to the urgent needs of the present national emergency, to refrain from applying for travel permits unless absolutely necessary and, where travel is necessary, to keep to an absolute minimum the amount of United States dollars to be used.

It is also important to keep our American friends informed as to the underlying purpose of these regulations and to remove any misconceptions which might arise through unfounded rumours and, indeed, enemy propaganda. When the Minister of Finance announced the Government's travel policy, he expressed his confidence that the people of the United States also would realize that the action was being taken only because of Canada's desire to organize itself for the primary purpose of prosecuting the war to the limit of its resources. Since Canadians felt that they had to forego the pleasure of going South, he hoped that our American neighbours would come North and see us. He pointed out that friendly American tourists are more welcome than ever in Canada and that no passport or other restrictions affect them.

Every Canadian can make a positive contribution to the prosecution of the war by assisting in the encouragement of the tourist trade. The Board has found that the Canadian travel policy needs only to be explained to our American friends to win their ready approval and support. Thousands of Americans have come to Canada not only to have an enjoyable vacation but with the definite purpose of assisting in this way the cause for which Canada is fighting. They know that every American dollar which they bring to Canada and spend here is immediately sent back to the United States to pay for the aeroplanes, tanks and guns which are needed by our Armed Forces and to pay for imports of essential commodities which are required for the continued functioning of a large part of Canadian industry.

3. EXEMPTIONS FROM TRAVEL PERMITS

Under the Foreign Exchange Control Order and Regulations no travel permit is required by :

(a) Members of the Armed Forces of Canada leaving for duty abroad.

(b) A resident representative of another country or a member of his family who is entitled to exemption and carries a certificate of exemption from registration under the National Registration Regulations, 1940.

(c) A resident under the age of sixteen years when travelling with a parent or guardian to whom a permit has been granted covering the travel of both parties or with a parent or guardian exempted under (b) above.

(d) Any resident who is proceeding direct from Canada to Newfoundland or to the sterling area provided he is not taking with him any foreign currency other than the currency of a country in the sterling area. By direct travel is meant travel on a vessel which does not enter any port in a country outside Canada and the sterling area in the course of its journey to Newfoundland or to the traveller's destination in the sterling area, as the case may be.

4. TRAVEL IN THE STERLING AREA

Residents of Canada may freely obtain sterling and may readily obtain permission to spend Canadian dollars for travel purposes in the sterling area. (The sterling area is roughly the same as the British Empire). As mentioned under Section 3, no travel permit is needed by any resident who is travelling direct from Canada to the sterling area without stopping at any place outside the sterling area, provided he is not taking with him any foreign currency except sterling.

If a resident wishes to travel to any country in the sterling area by way of the United States or any other country outside the sterling area, expenditure of United States funds is involved, either directly by the traveller or indirectly by reason of transportation having been purchased through a non-sterling country. In these cases, therefore, a travel permit is required and may be obtained only in the cases referred to in Section 5.

Special arrangements have, however, been made by Bermuda and the British West Indies Islands of Bahamas and Jamaica whereby the United States dollars which must be used by a Canadian in order to travel to those Islands through the United States or on an American ship will be provided by the authorities in those Islands. Any bank or travel agent can furnish details.

It should be noted that no United States funds may be expended by residents of Canada in countries of the sterling area.

5. TRAVEL IN THE UNITED STATES AND OTHER COUNTRIES OUTSIDE THE STERLING AREA

Application for the ordinary form of travel permit, which is required by any resident travelling to the United States and other countries outside the sterling area, is made on Form H, copies of which are available from the Board's agents, that is, branches of Canadian banks, savings banks and express companies. The application form, if approved, itself constitutes the permit and one copy is given to the applicant to be surrendered by him to the Customs Officer at the time he leaves Canada.

To obtain such a permit the applicant should go to the bank or other institution with which he regularly transacts business or if there is none such, then to any of those agents of the Board to whom the applicant satisfactorily identifies himself. In certain cases the bank or other agent may have authority to approve the permit subject to his instructions from the Board; in other cases it will be necessary that the agent refer the application to the Board.

(*Note:* Permits issued for travel in or through the United States or any other countries outside the sterling area do not authorize the expenditure of Canadian funds in those countries. United States funds are obtainable from a bank or other agent of the Board for necessary travelling and personal expenses in connection with the journey for which a travel permit has been issued. Any United States funds not necessary for such purposes are to be returned to the bank or agent immediately on the traveller's return to Canada).

Applications for permits to travel to the United States or other countries outside the sterling area may be classified as follows:

(a) *Business Travel:* Business firms having a considerable volume of business travel in the United States are asked to submit budgets of their necessary travel expenditures so that, in appropriate cases, the Board may authorize their banks to sell them United States funds and issue travel permits in cases coming within the scope of their budgets. In other cases application may be made to banks or other agents of the Board by persons for whom it is necessary to travel to the United States on business; in such cases the traveller should produce evidence that the application has been approved by his employer, either in the form of a letter stating the purpose of the journey and the amount required or by the countersignature of the employer on the application for the travel permit.

In all cases of business travel there must be a bona fide business reason for the journey and expenditures must be kept to reasonable figures. A permit will only be issued for travel by the person who is engaged in the business in question, not for friends and members of his family.

(b) *Health Travel:* Applications made for health reasons must be confined to those where serious illness or permanent disability would result from continued residence in Canada. A special form of application for health travel may be obtained from banks. A medical report on a form provided by the Board must be completed by the applicant's medical doctor and forwarded to the Board at Ottawa. The Board in turn refers the application to medical officers of the Department of Pensions and National Health for their opinion on the medical questions involved. If an application is approved, the amount of funds provided is strictly limited to necessary expenses, having regard to the length of time for which residence abroad is necessary.

(c) *Travel for Educational Purposes:* Travel to the United States to attend school or to commence an under-graduate course at a university is not regarded as necessary. Up to the present time applications have ordinarily been approved for continuation of under-graduate courses previously commenced at American universities. In general, each application for travel for educational purposes is considered on its own merits, having in mind the existence of facilities in Canada for obtaining adequate training of the same kind. There are certain post-graduate studies and certain forms of technical training for which travel to the United States will be approved.

(d) *In Transit Travel:* In a number of districts in Canada the only or quickest and most direct route between two Canadian points is through the United States. Travel permits are granted in bona fide cases, provided the amount of United States funds requested is the minimum required for a direct trip through the United States without any unnecessary stop-overs in that country.

(e) *Travel to Conventions, etc.:* The Minister of Finance indicated that there are cases where attendance by Canadians at conventions in the United States may be regarded as being in the national interest; for example, where a conference is being held by employees of an international firm, it may be necessary that employees from Canada should attend; there are also conventions of international organizations at which, having regard to the close relations between Canada and the United States, it is desirable for representative Canadians to be present. In such cases application should be made to the Board by the Canadian head office of the firm or organization concerned and approval may be granted for a reasonable number of persons to attend as accredited delegates from the Canadian organization. In general, permits are issued only for the delegates themselves and not for members of their families and are limited to attendance at the convention.

(f) *Travel for Special Personal Reasons:* It is recognized that there are cases where, for special personal reasons, travel to the United States by a Canadian resident is actually necessary. It is difficult to discuss such cases in general terms but some examples are cases where near relatives in the United States are dangerously ill, cases where private business, as distinct from ordinary commercial business, can be settled only by a trip to the United States, etc. Each application of this kind is considered by the Board in the light of the particular circumstances.

(g) *Travel not Involving any Direct or Indirect Expenditure Outside Canada:* If it is established that all the expenses of a Canadian resident, including the United States dollar equivalent of transportation in the United States that may be purchased in Canada, are being provided gratuitously by friends or relatives in the United States, a travel permit may readily be obtained. (In certain cases of this kind a travel permit may be obtained from a Collector of Customs at the time of leaving Canada instead of obtaining the usual travel permit from a bank or other agent of the Board—see Section 6 (c)).

(h) *Travel by United States Citizens who are Residents of Canada:* United States citizens whose ordinary residence is in Canada may, by reason of an agreement between the Governments of Canada and the United States, obtain exemption from Canadian Foreign Exchange Control Regulations for United States assets which they hold. If such a United States citizen has obtained a certificate of exemption from the Board and is paying for all the expenses of a trip, including the United States dollar equivalent of transportation in the United States that may be purchased in Canada, out of such exempted assets, a travel permit is readily granted, regardless of the purpose of the trip. (Such persons may use the Travel Permit Application described in Section 6 (c) instead of the usual application on Form H if they are not purchasing transportation in Canada and are taking no United States funds and not more than $5 in Canadian funds with them from Canada. When they have left Canada they are of course free to use in any manner they wish, United States funds or other United States assets for which they have obtained exemption from the Board.)

(i) *Emergency Travel:* Occasions may arise very suddenly where it is necessary for a resident to make a trip to the United States of a kind for which a permit will ordinarily be granted. Agents of the Board have discretion to approve permits in emergency cases where they are satisfied as to the facts. Most offices of the Canadian National Railways Express Department, the Canadian Pacific Express Company, the American Express Company or Thos. Cook & Sons Ltd., are in a position to deal with such applications outside of banking hours.

6. SPECIAL PERMITS FOR TRAVEL TO THE UNITED STATES

In order to simplify the procedure for obtaining travel permits in border areas and in other special circumstances, the following Special Travel Permits may be obtained in the circumstances indicated:

(a) *Special Border Permit:* This permit may be obtained by transportation and communications employees who cross the border frequently in the course of their employment, by persons who reside in Canada but are employed in the United States, and in certain other cases where the need for such permits is apparent, as for example, by truck drivers employed by Canadian companies near the border and in other special cases where residents of Canada make daily or very frequent business trips to the United States.

Forms of application for these permits are available at local Customs Offices, banks and savings banks and the application may be made to the Board's offices at Windsor or Vancouver by residents of those cities and at Ottawa by other residents.

A Special Border Permit is valid for a period of approximately six months and is then eligible for renewal. It is valid for any number of journeys of the character covered by the permit, that is, it does not need to be surrendered when leaving Canada but is retained by the traveller after he has exhibited it to the Customs Officer at the time of leaving Canada. The permit enables the holder to take with him on each trip a stated amount of United States and/or Canadian currency and, where necessary, will be his authority to purchase such United States funds from a Canadian bank.

In particular, commuters living in Canada and working in the United States are urged to apply for Special Border Permits. They will readily be given permission to carry with them when crossing the border at any time funds earned in the United States which are required for their expenditures in the United States. The permit serves as a ready means of identification to Customs Officers and enables a commuter to cross the border freely without delay.

(b) *Special Business Travel Permit :* Companies whose employees are required to make frequent business trips to the United States on short notice and who have had travel budgets approved by the Board may be authorized to maintain imprest funds of United States cash to meet cases of emergency business travel. Companies to whom this authority has been granted may be furnished with Special Business Travel Permits which may be used on such an occasion by its employees. Each Special Business Travel Permit must be surrendered by the employee to a Collector of Customs at the port of exit when leaving Canada.

(c) *Travel Permit Application Card :* This application may be used in place of the usual travel permit on Form H in cases where a resident is making a trip of not longer than forty-eight hours in the United States which does not involve expenditures outside Canada (except of the kind indicated below), either directly by the applicant or by any other resident on his behalf, or indirectly by reason of transportation or other expenses in the United States being paid for in Canada. Accordingly this type of application may not be used where aeroplane, railway, bus or other tickets have been purchased in Canada for any destination in the United States except a city or town immediately across the border such as, for example, Detroit or Buffalo. The application does not permit a resident to take any United States funds out of Canada but permits him to take up to $5 in Canadian funds so that he may have money on hand for immediate expenses on his return to Canada. The expenditure of such Canadian funds in the United States is not authorized, except for nominal amounts for transportation within the town visited in the case of social visits to friends or relatives, or for incidental expenses in connection with business trips, or in the event of an unforeseen emergency. These Travel Permit Applications are available at Customs Offices at ports of exit from Canada or may be obtained in advance from banks. They are completed by the applicant and surrendered to a Customs Officer when leaving Canada. The application, when accepted by the Customs Officer, constitutes a permit for the applicant to proceed to the United States, subject to the conditions printed on the card.

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Foreign Exchange Control Board

BULLETIN No. 5

SECURITIES TRANSACTIONS

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SECURITIES TRANSACTIONS

1. GENERAL PRINCIPLES

Foreign exchange control was adopted in Canada on September 16, 1939, as an integral part of the adjustment of Canadian economy from a peace-time to a war-time basis. The utmost prosecution of the war by Canada as well as by other parts of the British Empire is vitally dependent upon obtaining war materials and essential supplies from the United States. These materials and supplies can be paid for only in United States dollars. It was, therefore, essential to take measures to ensure that Canada's actual and potential resources of United States dollars should be guarded from unnecessary dissipation and should be conserved for use as and when the national interest might demand. One aspect of these measures, which is the subject of this bulletin, concerns transactions in and affecting securities.

The broad principles of exchange control in so far as they relate to transactions in securities are as follows :

(a) In view of the necessity of conserving Canada's resources of United States dollars for essential war purposes, residents can no longer use Canada's available supplies of United States cash for the purpose of making exports of capital from Canada to purchase securities from non-residents.

(b) To the extent that residents already own marketable foreign securities, which constitute for Canada a large potential source of United States cash, they should continue to hold them in a form in which they will be available for use if the need arises; if they dispose of them to non-residents, payment for their full value must be obtained in United States funds and sold to an agent of the Board or, if the proceeds are reinvested, such reinvestment must be made in readily marketable foreign securities. (This is dealt with in more detail in Section 4 below).

(c) It is in the interests of non-residents as well as residents of Canada that investment values in securities markets in Canada should be safeguarded and protected from the possibility of disorderly selling by residents or non-residents who, under the shock of wartime conditions, might press unreasonably a desire to remove their capital from Canada. Consequently Canadians are not permitted to sell their Canadian securities and export the proceeds for the purpose of making what they might think is a more attractive investment abroad and non-residents holding Canadian securities at the commencement of the war are not permitted to reduce the total amount of that investment in Canada by making outright sales of securities to residents for cash. (This is dealt with in more detail in Section 5 below). These measures are important also in that they prevent disorganization of Canada's domestic securities markets which, if it occurred, would seriously interfere with the Government's programme of war financing.

Residents may deal freely in either Canadian or foreign securities with other residents, and non-residents may freely sell Canadian or foreign securities to other non-residents, since such transactions do not affect either the total resident holdings of foreign securities or the total non-resident holdings of Canadian securities.

It will be noted from the foregoing that in the regulation and control of securities transactions, a distinction is drawn between transactions by residents and transactions by non-residents. Residents are subject to control in respect of all types of financial transactions. Non-residents are, however, generally subject to control only with respect to transactions with residents, in which case the governing consideration is usually the circumstances under which residents are permitted to enter into such transactions.

For the purposes of this bulletin, the expression "non-resident" means a resident of the United States or of other countries in North and South America, excluding Canada and Newfoundland. To a certain extent, the same rules apply to all non-residents. There are, however, certain variations with respect to transactions by and with non-residents who are residents of other countries in the British Empire; these are referred to in Section 10 below. In addition, special rules are applicable to transactions by and with residents of countries which are occupied by or contiguous to the enemy; all such transactions are dealt with by the Foreign Exchange Control Board on an individual basis and the rules outlined in this bulletin are not necessarily applicable to them.

The expression "resident" means any person whose ordinary residence is in Canada (and, for most purposes, Newfoundland) and it specifically does not include persons who come to Canada as tourists or temporary visitors. It should be noted that a person who was ordinarily resident in Canada on September 15, 1939, or at any subsequent time, continues to be regarded as a resident for foreign exchange control purposes unless the Board makes a ruling to the contrary.

2. FOREIGN SECURITIES AND CANADIAN SECURITIES

The following terms are defined in the Foreign Exchange Control Order and have the same meanings when used in this bulletin :

> "Foreign securities" includes "securities issued by or on behalf of any government, municipal or other public authority of a country other than Canada and Newfoundland or by any society, syndicate, company or corporation incorporated in a country other than Canada and Newfoundland, or, if unincorporated, whose head office is in a country other than Canada and Newfoundland, and also includes any Canadian foreign securities".
>
> "Canadian securities" means "securities issued by any Canadian or Newfoundland government or municipal or other public authority or by any society, syndicate, company or corporation incorporated in Canada or Newfoundland, or, if unincorporated, whose head office is in Canada or Newfoundland".
>
> "Canadian domestic securities" means "any Canadian securities except those which are payable, or the principal amount of which is expressed, or any interest or dividends on which are payable or paid, solely or at the option of the holder in foreign currency".
>
> "Canadian foreign securities" means "any Canadian securities which are payable, or the principal amount of which is expressed, or any interest or dividends on which are payable or paid, solely or at the option of the holder in foreign currency".

3. EXPORTS AND IMPORTS OF SECURITIES

Licences from the Board are required for the export of securities from Canada and for the import of securities into Canada. Such licences are primarily an administrative measure to ensure that movements of securities occur only in connection with permitted transactions in securities.

Licences for the export of securities are granted :

(a) For the export of securities held in Canada by non-residents whether acquired prior to the outbreak of war or lawfully acquired at a subsequent date.

(b) For the export of securities by residents for sale or for sale and reinvestment of the proceeds in accordance with the rules governing such transactions.

Licences for the import of securities are granted :

(a) For the import of securities by residents or non-residents where such securities are being imported in connection with transactions in Canada which are permitted by the Board.

(b) For the import of strictly foreign securities for safekeeping or otherwise by either residents or non-residents. The importation of Canadian securities is not generally permitted except where they are being imported by non-residents for sale under the circumstances described in Section 5 (d) below.

Export and import licences are also granted to residents or non-residents in all cases where it is necessary to move securities to or from Canada for the purpose of presenting them for payment upon maturity or for the purpose of effecting changes of registration.

4. TRANSACTIONS BY RESIDENTS

Residents of Canada may enter into the following securities transactions :

(a) They may sell to or buy from other residents for payment in Canadian dollars either Canadian or foreign securities or may transfer Canadian or foreign securities to other residents without payment.

(b) They may sell and transfer Canadian domestic securities to non-residents where immediate payment of the value of the securities is to be received either in Canadian dollars or United States dollars.

(c) They may sell and transfer foreign securities to non-residents for immediate payment of the value of the securities in United States dollars.

(d) They may purchase foreign securities from non-residents where the purchase is made simultaneously with the sale of an equal or greater amount of foreign securities by the resident concerned; that is, where the resident is exchanging one foreign security for another. Such exchanges of securities must be effected through an investment dealer in Canada and the securities so acquired must be readily marketable. United States dollars received on the maturity or redemption of foreign securities may be reinvested immediately in the same manner.

(e) They may purchase securities in Canada from non-residents where the non-residents are simultaneously reinvesting the proceeds in Canadian domestic securities or where the non-residents have been granted permits for the sale of such securities. (See Section 5 below).

Residents are not permitted to assume short positions in securities in markets outside Canada.

All United States dollars received by residents from the sale of foreign securities must be sold immediately to a bank in Canada unless they are being reinvested in the manner referred to in paragraph (d) above or unless they are being applied in reduction of a debit balance against the securities sold.

All interest and dividends received in United States dollars by residents of Canada must be sold to a Canadian bank as soon as they are received and they may not be used to make further investments.

5. TRANSACTIONS BY NON-RESIDENTS

Non-residents may enter into the following transactions in securities :

(a) They may purchase from or sell to other non-residents either Canadian or foreign securities either outside Canada or in Canada through the medium of a Canadian investment dealer.

(b) They may purchase Canadian domestic securities from residents for immediate payment of their value in either Canadian dollars or United States dollars.

(c) They may purchase foreign securities from residents for immediate payment of their value in United States dollars but not otherwise.

(d) They may sell securities in Canada to residents, in the following circumstances :

(i) where the transaction is effected through a Canadian investment dealer and the proceeds of sale are simultaneously reinvested by the non-resident in Canadian domestic securities having a maturity of not less than three years or of not less than the maturity of the securities sold if the latter is less than three years. (Government or Government guaranteed securities may be purchased only if those sold are of a similar classification).

(ii) where the transaction is effected through a Canadian investment dealer and consists of the sale of Canadian domestic securities which the non-resident had previously purchased in Canada from a resident for cash. A permit is necessary but will readily be granted if the previous purchase of the securities being sold has been recorded with the Board.

(iii) where the proceeds of the securities are being applied to reduce a debit balance with a Canadian investment dealer applicable to the particular securities sold. A permit is necessary but is granted in such cases.

A non-resident may not sell securities in Canada to a resident except in the circumstances outlined above.

6. MATURITY OF CANADIAN SECURITIES OWNED BY NON-RESIDENTS

Canadian debtors are readily permitted to pay, as they fall due, their debts to non-residents in the currency in which the debts are payable. United States dollars are made available to a resident for payment on the maturity of securities payable in that currency. Similarly permission is granted for payment in Canadian dollars to a non-resident on the maturity of securities payable exclusively in Canadian dollars.

7. INTEREST AND DIVIDENDS PAYABLE TO NON-RESIDENTS

The present general policy of the Board is to provide foreign exchange for all current income accruing to non-residents from Canadian sources. A Canadian debtor may obtain a permit for the purchase of United States funds to pay interest to a non-resident where such interest is expressly payable in United States funds. Similarly a Canadian debtor may obtain a permit to pay Canadian dollars to a non-resident where the interest is payable in Canadian dollars and in such a case the non-resident recipient may obtain United States funds from a Canadian bank at the official rate of exchange for the equivalent of such interest. Similar principles apply to dividends. If dividends are being paid out of current earnings and if the previous practice of the company has been to pay them in United States funds, it may obtain United States funds to make such payments and, if the dividends are payable in Canadian dollars, non-resident recipients of such dividends may obtain United States funds from a Canadian bank at the official rate of exchange.

Instead of converting Canadian dollar interest and dividends into United States dollars as they are received, non-residents may, if they wish, open non-resident income accounts with banks in Canada to which such items may be deposited. The balances in such accounts may then be converted into United States funds at the official rate of exchange from time to time as the depositor finds convenient.

8. NEW INVESTMENTS BY NON-RESIDENTS

A non-resident who held Canadian dollars at the outbreak of war or who has since obtained Canadian dollars (as for example upon the maturity of Canadian securities or by purchase from another non-resident) may invest them freely in Canada in Canadian domestic securities. If the purchase of such securities has been recorded with the Board, the non-resident may subsequently obtain a permit to sell such securities whenever he so desires. (See Section 5 (d) (i) above). A non-resident may also make other types of investments in Canada in Canadian dollars such as by a loan to a Canadian enterprise or in Canadian real estate and a permit will subsequently be granted upon maturity of the loan or on sale of the investment to enable the Canadian borrower or purchaser to pay Canadian dollars to the non-resident if the original transaction has been duly recorded with the Board. A Canadian requires a permit from the Board to borrow Canadian dollars from a non-resident but such a permit is granted for any new capital investment.

Special provision has also been made to facilitate investments in new capital developments in Canada by non-residents who wish to be able at a later date to receive United States dollars upon liquidation of their investment. The conditions are that the non-resident shall have brought United States dollars to Canada and sold them to a Canadian bank subsequent to the outbreak of war for the purpose of assisting in a new capital development in Canada, such as the building of a new industrial plant or of an extension to an existing plant or the development of mining or oil properties. Such an investment must usually be of a long-term nature but, if it is recorded with the Board at the time it is made and the non-resident subsequently disposes of his interest in the undertaking, the policy at present being administered by the Board is to permit him to purchase United States dollars from a Canadian bank at the official rate of exchange for the proceeds up to the amount of United States dollars originally brought to Canada. Any capital gains accruing to the investor may be withdrawn in Canadian dollars. Any interest, dividends or current profits accruing to the non-resident will, during the currency of his investment, be eligible for conversion into United States funds at the official rate.

9. COMMODITY MARKETS

Residents of Canada are permitted to trade in commodity futures abroad on the same basis as they may trade in foreign securities abroad; that is, trading may be carried on within their existing position but that position may not be increased. Residents engaged in importing, exporting or processing commodities may, however, carry on the necessary hedging operations in foreign markets in connection with their business.

With respect to non-residents trading in Canadian markets, special arrangements have been made whereby futures trading in the Winnipeg Grain Exchange may be carried on on a United States dollar basis; that is, non-residents may obtain repayment of their margins and payment of their profits in United States dollars. Conversely, margins must be put up and any losses must be reimbursed to the Canadian broker in United States dollars.

10. TRANSACTIONS BY RESIDENTS OF CANADA WITH RESIDENTS OF THE UNITED KINGDOM

The rules referred to in Sections 4 and 5 above apply generally to transactions between residents of Canada and residents of the United Kingdom. Canadian residents are, however, regarded as non-residents for foreign exchange control purposes in the United Kingdom and as such, require permits from the United Kingdom authorities before they may sell securities there. Such permits are granted only in cases of hardship and only where the Canadian has previously obtained a permit from the Canadian Foreign Exchange Control Board.

In general, the Board will grant the necessary permission to residents of Canada to purchase securities in the United Kingdom and residents of the United Kingdom may readily obtain permits from the Board to sell any securities in Canada since such transactions are methods by which Canada may assist the United Kingdom in the present war.

Transactions with residents of all other British Empire countries (except Hong Kong and Newfoundland) are on the same basis as those with the United Kingdom.

11. FURTHER INFORMATION

The specific provisions governing securities transactions are contained in the Foreign Exchange Control Order and in Regulations and instructions issued from time to time by the Foreign Exchange Control Board under the authority conferred on it by the Order. The purpose of this bulletin is to indicate in general terms the purpose and effect of those provisions at the present time. Details of the appropriate procedures have been omitted. Canadian stockbrokers, investment dealers, banks and other financial institutions are, however, fully conversant with the Board's requirements and will make applications for any necessary permits or licences on behalf of their clients. Those who may be contemplating entering into transactions affected by foreign exchange control may obtain from such institutions or direct from the Foreign Exchange Control Board at Ottawa or Vancouver, information as to any changes in the policy administered by the Board since the date of this bulletin or other detailed information they may desire.

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